



PUBLIC DISCLOSURE

October 08, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Headland National Bank
Charter Number 13752

40 Main Street
Headland, AL 36345

Office of the Comptroller of the Currency

Three Ravinia Drive
Suite 1950
Atlanta, GA 30346

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

The Headland National Bank's performance rating is supported by the following:

- a satisfactory loan-to-deposit ratio;
- a substantial majority of loans are in the assessment area;
- a satisfactory penetration of loans among borrowers of different incomes, and businesses of different sizes; and
- a satisfactory penetration of loans to borrowers in different geographies.

SCOPE OF EXAMINATION

This Performance Evaluation (PE) is an assessment of The Headland National Bank's ability to meet the credit needs of the communities in which it operates. Examiners conducted a full-scope review of the bank's Assessment Area (AA), or Henry and Houston Counties. Henry and Houston counties are part of the Dothan, AL MSA. This evaluation covered the period of March 2008 to June 2013. Loan performance was determined by analyzing the bank's primary products originated during the evaluation period. The bank's primary products include home loans, business loans, and consumer loans. We sampled 30 business and 30 consumer loans originated from January 2010 to December 2011. This data was evaluated using 2000 U.S. Census data. We also sampled 30 business and 30 consumer loans originated from January 2012 to June 2013. These loans were evaluated using 2010 U.S. Census data.

DESCRIPTION OF INSTITUTION

The Headland National Bank (HNB) is a \$105 million community bank headquartered in Headland, AL. HNB's business strategy is to continue to strengthen the bank's financial condition, while providing a wide array of banking services to its customers. HNB also continues to be active in serving the community.

HNB is majority owned by HNB Holding Company, a one-bank holding company. HNB is comprised of two full-service offices, the main office and a branch on Highway 431. Both offices are in Henry County, AL, and both have automated teller machines (ATMs). HNB also has a stand alone ATM located in a convenience store on U.S. Highway 431. All of the bank's ATMs do not accept deposits.

HNB offers a variety of products including real estate, consumer, agricultural, and business loans; as well as various deposit accounts for consumers and businesses. The bank also responds to community needs through making numerous small loans (less than two thousand dollars). These loans were mostly personal loans, auto refinance loans, and business working capital loans. Long-term mortgage lending is housed at the bank's branch. These mortgages are sold in the secondary market.

As of June 30, 2013, the bank's loan portfolio totaled approximately \$60 million. The percentage of net loans to total assets is 57 percent. Loans are centered in residential real estate loans (28%), non-farm and non-residential loans (12%), construction and land development loans (23%),

commercial and industrial loans (14%), agriculture and farmland loans (12%), loans to individuals (6%), and other types of loans (5%).

HNB signed a formal agreement in November 2010, which required the bank to implement stronger controls over lending. Actions taken to comply with the agreement have limited some of the bank's ability to lend. Nonetheless, the bank is continuing to meet the credit needs of its AA. HNB received a "Satisfactory" rating at the last CRA review dated March 18, 2008.

DESCRIPTION OF ASSESSMENT AREA

HNB's AA is comprised of Henry and Houston Counties, which are part of the Dothan, AL MSA. The current AA does not arbitrarily exclude any low- or moderate-income tracts.

The 2010 Census reveals that HNB's AA consists of 28 census tracts: 1 low-income census tract, 5 moderate-income census tracts, 17 middle-income census tracts, and 5 upper-income census tracts. The low- and moderate-income census tracts are located in Houston County. Henry County, where the bank and branch are located, consists of all middle-income census tracts.

The AA population is 118,849, with 30,927 total families and 44,691 households. The AA population increased from 105,097 in the 2000 U.S. Census. Also, the median family income (MFI) increased from the 2000 to the 2010 U.S. census, as shown in the charts below.

The majority of the housing units in the AA are occupied at 84 percent. 58 percent of the housing units are owner occupied, while 25 percent are renter occupied. Seventeen percent of total households in the AA are living below the poverty level. This is similar to the level shown in the 2000 U.S. Census. Unemployment increased slightly from 3.30 percent in the 2000 U.S. Census to 4.26 percent in the 2010 U.S. Census. The following tables below highlight the demographic composition of the bank's AA based on 2000 U.S. Census Data and 2010 U.S. Census Data.

Demographic & Economic Characteristics of AA Based on 2000 Census	
Population	
Number of Families	30,043
% Low Income Families	20.89 %
% Moderate Income Families	16.00 %
% Middle Income Families	20.32 %
% Upper Income Families	42.78 %
Geographies	
Number of Census Tracts	27
% Low Income Census Tracts - (1)	3.07 %
% Moderate Income Census Tracts - (5)	18.52 %
% Middle Income Census Tracts - (16)	59.26 %
% Upper Income Census Tracts - (5)	18.52 %
Median Family Income (MFI)	
2000 MFI for AA	\$39,732
2011 HUD Adjusted MFI	\$51,200
Economic Indicators	
Unemployment Rate	3.30%
2000 Median Housing Value	\$74,351
% of Households Below Poverty Level	16.43 %

Source: 2000 U.S. Census Data, HUD updated income data

Demographic and Economic Characteristics of AA Based on 2010 Census	
Population	
Number of Families	30,927
% Low Income Families	20.80 %
% Moderate Income Families	16.45 %
% Middle Income Families	19.11 %
% Upper Income Families	43.65 %
Geographies	
Number of Census Tracts	28
% Low Income Census Tracts - (1)	3.57 %
% Moderate Income Census Tracts - (5)	17.86 %
% Middle Income Census Tracts - (17)	60.71 %
% Upper Income Census Tracts - (5)	17.86 %
Median Family Income (MFI)	
2010 MFI for AA	\$48,288
2012 HUD Adjusted MFI	\$51,900
Economic Indicators	
Unemployment Rate	4.26 %
2010 Median Housing Value	\$113,104
% of Households Below Poverty Level	16.61 %

Source: 2010 U.S. Census Data, HUD updated income data

The leading industries in the Dothan metro area include state and local government, retail trade, and education and health services. Major employers include Southeast Alabama Medical Center, Flowers Hospital, Wayne Farms, Inc., Southern Nuclear (Farley), and Wal-Mart Stores Inc.

Competition in the bank's AA is high. The AA has 15 institutions and 47 total bank offices. As of June 30, 2013, HNB had 4 percent deposit market share. Regions Bank leads deposit market share at 20 percent. However, competition is less in Henry County alone. There are only four other banks in Henry County, where the bank and branch are located. The bank leads in deposit market share in Henry County at 37 percent.

Information obtained from a community leader indicated the primary credit needs in the community are small business loans and home loans. The contact indicated the economy is stressed. While many businesses in Headland have closed or are closing, there is also a demand for new business. HNB indicated that many new businesses have opened in recent years.

The contact also indicated it is difficult for the community to get home loans, as appraised values have dropped. However, current research indicates that the economy in the Dothan metro area is improving. Demand for housing and rising incomes will begin to increase housing prices. Also, the rising prices are expected to bring underwater homeowners back into the market in the near term.

Our contact indicated that HNB and other banks in the area are involved in the community. Given the changes in the banking industry with the economic downturn, local banks are providing adequate resources to help fulfill community needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

HNB's loan performance in the AA is satisfactory. The bank's loan-to-deposit (LTD) ratio is reasonable. Also, a substantial majority of loans were granted in the AA. Given the bank's performance context, lending to borrowers of different incomes and businesses of different sizes is reasonable, and the geographic distribution of loans is reasonable.

Loan-to-Deposit Ratio

HNB's LTD ratio is reasonable given the bank's size, financial condition, and AA credit needs. The bank's average LTD ratio since the last CRA exam in March 2008 is approximately 75 percent. During this period, HNB's quarterly loan-to-deposit ratio ranged from a high of 94 percent in September 2008 to a low of 56 percent in June 2012.

HNB's average LTD ratio of 75 percent is below the average loan to deposit ratio of its two similarly situated peers at 82 percent. Both of HNB's peers are multi-state banks. Also, HNB has been focusing on reducing problem loans rather than making new loans over the past several years. Since the bank's lowest LTD ratio in June 2012, the LTD ratio increased to 67 percent as of June 2013. Management plans to increase the level of loans and the LTD ratio going forward.

Lending in Assessment Area

Lending levels reflect an outstanding responsiveness to community credit needs. We reviewed the bank's home purchase, home refinance, and home improvement loans, and a sample of 60 business loans and 60 consumer loans originated during the evaluation period. A substantial majority of loans were granted within the AA. The results of this analysis are highlighted below:

Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	35	81.40	8	18.60	43	3,323	70.97	1,359	29.03	4,682
Home Improvement	20	95.24	1	4.76	21	646	97.14	19	2.86	665
Home Refinance	45	80.36	11	19.64	56	4,027	61.73	2,497	38.27	6,524
Business	58	96.67	2	3.33	60	11,668	96.34	443	3.66	12,111
Consumer	49	81.67	11	18.33	60	637	85.43	109	14.57	746
Totals	207	86.25	33	13.75	240	20,301	82.10	4,427	17.90	24,728

Source: 2000 & 2010 U.S. Census Data, Data reported under HMDA, Sample of 60 business loans and 60 consumer loans

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Overall, the distribution of home purchase, home refinance, home improvement, business, and consumer loans to borrowers of different income levels and to businesses of different sizes is satisfactory. In evaluating the borrower distribution of home purchase loans, we considered the number of families that live below the poverty level and the barriers that this may have on home ownership.

The distribution of home purchase, home refinance, and home improvement loans to borrowers of different income levels is reasonable when compared to the demographics of the AA. Although the percentage of home purchase, home refinance, and home improvement loans to low- and moderate-income borrowers is lower than the percentage of low-income and moderate-income families residing in the AA, 17 percent of all families in the AA live below the poverty level according to 2010 U.S. Census data. Additionally, 25 percent of housing is renter occupied. Similar to the 2010 U.S. Census, the 2000 U.S. Census shows 16 percent of all families lived below the poverty level, and 26 percent of housing was renter occupied.

Additionally, even though HNB's loans to low- and moderate-income families were lower overall than the percentage of low- and moderate-income families, HNB's home refinance loans to low- and moderate-income families exceed the percentage of low- and moderate-income families for the 2000 U.S. Census. Furthermore, HNB's home purchase and home improvement loans to moderate-income families exceed the percentage of moderate-income families in the 2010 U.S. Census.

Borrower Distribution of Residential Real Estate Loans in AA Based on 2000 Census								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	20.89	0.00	16.00	10.00	20.32	23.33	42.78	66.67
Home Improvement	20.89	0.00	16.00	8.33	20.32	16.67	42.78	75.00
Home Refinance	20.89	15.15	16.00	24.24	20.32	12.12	42.78	48.48

Source: 2000 U.S. Census Data, Data reported under HMDA

Borrower Distribution of Residential Real Estate Loans in AA Based on 2010 Census								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	20.80	6.67	16.45	20.00	19.11	13.33	43.65	60.00
Home Improvement	20.80	11.11	16.45	22.22	19.11	11.11	43.65	55.56
Home Refinance	20.80	13.64	16.45	9.09	19.11	13.64	43.65	63.64

Source: 2010 U.S. Census Data, Data reported under HMDA

An analysis was performed on 29 business loans in the AA using the 2000 U.S. Census and 29 business loans in the AA using the 2010 U.S. Census. The distribution of loans to small businesses is satisfactory.

The level of lending to small businesses compared to the 2000 U.S. Census was outstanding. The level of loans by number and dollar to small businesses exceeds the amount of small businesses in the AA.

Borrower Distribution of Loans to Businesses in AA – Based on 2000 Census				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	67.40	2.95	29.64	100%
% of Bank Loans in AA by #	86.21	13.79	0.00	100%
% of Bank Loans in AA by \$	82.42	17.58	0.00	100%

Source: 2010 U.S. Census Data, Business Loan Sample of 29 loans, & Dunn & Bradstreet data

The level of lending to small businesses compared to the 2010 U.S. Census was satisfactory. HNB’s loans to small businesses by number are slightly less than the percentage of businesses in the AA. The dollar amount of loans to small businesses is less than the percentages of businesses in the AA, but this is generally due to small businesses requesting and qualifying for lower loan

amounts than large businesses. Additionally, the bank tightened its lending standards to meet the requirements of the Formal Agreement. These standards were being put into effect at the end of 2010 and into 2011.

Borrower Distribution of Loans to Businesses in AA Based on 2010 Census Data				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71.06	3.75	25.19	100%
% of Bank Loans in AA by #	68.97	31.03	0	100%
% of Bank Loans in AA by \$	41.25	58.75	0	100%

Source: 2010 U.S. Census Data, Business Loan Sample of 29 loans, & Dunn & Bradstreet data

The distribution of consumer loans is outstanding. For both the 2000 and 2010 U.S. Censuses, the number of loans originated to low- and moderate-income individuals exceeds the number of low- and moderate-income households in the AA.

Borrower Distribution of Consumer Loans in AA – Based on 2000 Census								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	25.11	43.48	14.32	8.70	17.51	34.78	43.06	8.70

Source: 2000 U.S. Census Data, Consumer Loan Sample of 23 loans (1 unknown income-level)

Borrower Distribution of Consumer Loans in AA – Based on 2010 Census								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans						
Consumer Loans	24.11	42.31	15.31	19.23	16.71	15.38	43.87	11.54

Source: 2010 U.S. Census Data, Consumer Loan Sample of 26 loans (3 unknown income-levels)

Geographic Distribution of Loans

Overall, the distribution of home purchase, home refinance, home improvement, business, and consumer loans to borrowers in different geographies is reasonable. Our analysis of lending patterns found no conspicuous gaps of lending within the various census tracts making up the AA.

The geographic distribution of home purchase, home refinance, and home improvement loans is reasonable when compared to the demographics of the AA. The number of loans to low- and moderate-income census tracts is less than the percentage of owner occupied housing in those tracts. However, Henry County, where the bank is located, has no low- or moderate-income census tracts for the 2010 U.S. Census. Also, Henry County had no low- and only one moderate-income tract in the 2000 U.S. Census. All low- and moderate-income tracts are located in Houston County, where competition is high, and HNB has no banking offices or ATMs.

However, HNB’s home improvement loans in low-income census tracts exceed the percentage of owner occupied housing in those tracts in the 2000 U.S. Census. Further, in the 2010 U.S. Census, home refinance loans to low-income census tracts exceed the percentage of owner occupied housing in those tracts. Also, HNB’s level of home purchase loans exceed the level of owner occupied housing in moderate-income tracts.

Geographic Distribution of Residential Real Estate Loans in AA Based on 2000 Census								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans						
Home Purchase	0.98	0.00	10.47	0.00	66.77	93.55	21.77	6.45
Home Improvement	0.98	8.33	10.47	0.00	66.77	91.67	21.77	0.00
Home Refinance	0.98	0.00	10.47	7.89	66.77	89.47	21.77	2.63

Source: 2000 U.S. Census Data, Data reported under HMDA

Geographic Distribution of Residential Real Estate Loans in AA Based on 2010 Census								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans						
Home Purchase	0.61	0.00	10.99	12.50	59.14	75.00	29.26	12.50
Home Improvement	0.61	0.00	10.99	0.00	59.14	90.00	29.26	10.00
Home Refinance	0.61	4.35	10.99	8.70	59.14	78.26	29.26	8.70

Source: 2010 U.S. Census Data, Data reported under HMDA

The distribution of business loans to borrowers in different geographies is reasonable. For the 2000 U.S. Census, HNB’s loans to businesses in low-income tracts slightly exceed the percentage of businesses in the low-income tracts. The number of loans to businesses in the moderate-income tracts was slightly less than the percentage of businesses in those tracts.

Geographic Distribution of Loans to Businesses in AA – Based on 2000 Census								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Businesses	6.47	6.90	13.18	10.34	52.06	68.97	28.29	13.79

Source: 2000 U.S. Census Data, Business Loan Sample of 29 loans

In the 2010 U.S. Census, the number of loans to businesses in low- and moderate-income census tracts is less than the percentages of businesses in those tracts. The level of performance worsened from the 2000 U.S. Census to the 2010 U.S. Census due to management tightening lending standards to comply with the Formal Agreement. The tightened lending standards made it harder for the bank to compete in Houston County. A bank director’s insurance business, located in the low-income census tract in Houston County, helps the bank serve low-income needs in Houston County. The bank finances insurance premiums referred to the bank from the director’s insurance company.

Geographic Distribution of Loans to Businesses in AA – Based on 2010 Census								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Businesses	6.70	3.45	15.75	6.90	47.04	72.41	30.51	17.24

Source: 2010 U.S. Census Data, Business Loan Sample of 29 loans

The geographic distribution of consumer loans in the AA is reasonable. Although the number of loans to low- and moderate-income census tracts for both the 2000 and 2010 U.S. Censuses is less than the percentage of households in those tracts, most of HNB’s consumer lending occurs in Henry County. As mentioned previously, Henry County had no low- or moderate-income tracts in the 2010 U.S. Census. Henry County’s one moderate-income tract in the 2000 U.S. Census explains the better loan performance to moderate-income tracts in that census year.

Geographic Distribution of Consumer Loans in AA – Based on 2000 Census								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	2.42	0	12.49	8.70	62.93	86.96	22.16	4.35

Source: 2000 U.S. Census Data, Consumer Loan Sample of 23 loans

Geographic Distribution of Consumer Loans in AA – Based on 2010 Census								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
Consumer Loans	1.90	0	14.67	3.85	56.92	96.15	26.52	0

Source: 2010 U.S. Census Data, Consumer Loan Sample of 26 loans

Responses to Complaints

No complaints related to CRA performance were received during the evaluation period. This has a neutral impact on the overall CRA rating.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. § 25.28(c) in determining a national bank’s CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the national bank, or in any assessment area by an affiliate whose loans have been considered as part of the national bank’s lending performance. We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.